



## LACHLAN STAR LIMITED

Quarterly Report for the Period  
Ending 31 March 2013

# HIGHLIGHTS

## CMD GOLD MINE (100%, CHILE)

- Gross Operating Profit for the CMD Gold Mine of US\$0.70 million for the month of March;
- 10,892 ounces of gold produced in the quarter;
- Record quarterly gold mined under Lachlan Star's ownership of 21,220 ounces;
- Record quarterly gold stacked under Lachlan Star's ownership of 17,940 ounces;
- Mining costs reduced to \$8.10 per tonne of ore (including waste stripping), an improvement of 14% on the previous quarter;
- Owner mining fleet costs US\$2.01/t moved in month of March, delivering significant savings;
- Total costs reduced to \$18.35 per tonne of ore stacked, an improvement of 3% on the previous quarter and a record low under the Company's ownership;
- Record ore mining rates achieved in quarter, including a high of 40,000 tonnes of ore mined in one day, a record for the CMD Gold Mine in 18 years of operation and resulting in a large ore stockpile build up;
- Most production metrics have now shown continuous long-term improvement since Lachlan Star bought the CMD Gold Mine in late 2010;
- Market capitalisation of the Company in gold now at 18,600 ounces, with 2.06 million ounces of Indicated mineral resources and a further 1.35 million ounces of Inferred mineral resources.

## CORPORATE

- C\$10 million secured debt facility (Facility) entered into with Sprott Resource Lending Partnership ("Sprott"). The Facility has a 12-month term and is drawable in two x C\$5 million Tranches

## CMD GOLD MINE (100% CHILE)

### Production, Unit Costs and Sales

Production from the CMD Gold Mine is summarised in Table 1 below. Unless otherwise noted, all currency disclosures are in US dollars and all weights and measures are in metric units.

**Table 1 – CMD Gold Mine Operating Summary**

Item	Unit	3 months ended 31-Mar-13	3 months ended 31-Dec-12	% Change Variance
Ore Mined	Dmt	1,338,000	1,328,690	1%
Waste Mined	Dmt	3,601,724	4,347,712	-17%
Total Mined	Dmt	4,939,724	5,676,402	-13%
Waste:Ore Ratio	t:t	2.7	3.3	-18%
Ore grade Mined	Au g/t	0.49	0.43	14%
Gold Mined	Au oz	21,220	18,545	14%
Ore stacked	Dmt	1,146,000	1,239,672	-8%
Stacked Grade	Au g/t	0.49	0.45	9%
Gold Stacked	Au oz	17,940	17,855	0%
Average stacking rate	dmt/d	12,876	13,475	-4%
Gold Produced	Au oz	10,892	13,722	-21%
Mining Cost/t moved	US\$/t	\$2.20	\$2.21	0%
Mining Cost/t ore	US\$/t	\$8.10	\$9.43	-14%
Process Cost/t ore stacked	US\$/t	\$8.51	\$7.88	8%
G+A Cost/t ore	US\$/t	\$1.74	\$1.68	4%
Total Cost/t ore	US\$/t	\$18.35	\$18.99	-3%
Average Sales Price	USD/oz	\$1,635	\$1,742	-6%
Cash Cost	USD/oz	\$1,337	\$1,062	26%
Non Cash Process Inventory Adjustment	USD/oz	-\$98	-\$35	9%
C1 Cash Cost	USD/oz	\$1,239	\$1,026	21%
<b>CMD Gold Mine Gross Operating Profit / (Loss) (Unaudited)*</b>	<b>US\$ million</b>	<b>-\$0.53</b>	<b>-\$1.84</b>	<b>71%</b>

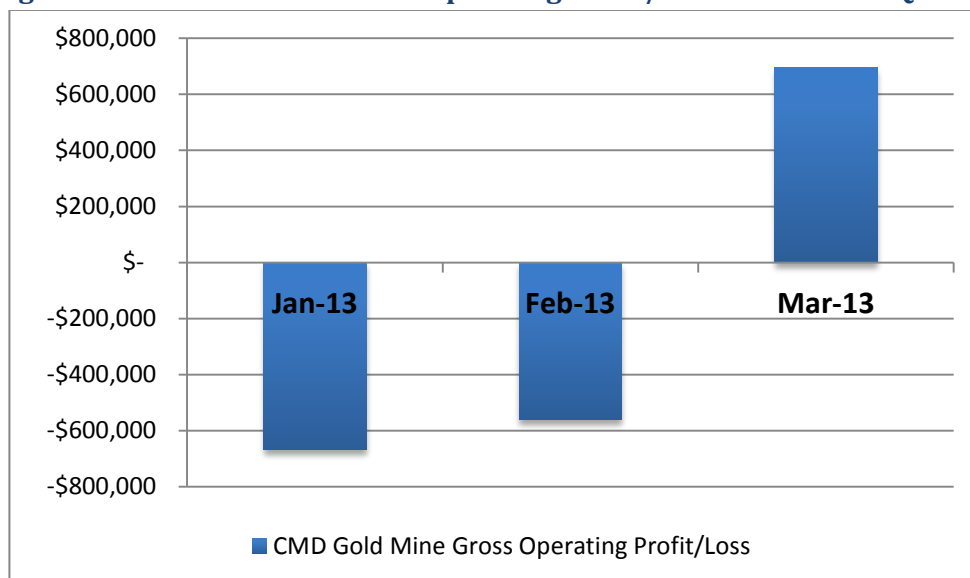
\*revenues and dore in process plus ore stockpiles less cost of sales (including waste expensed and amortised), interest and other site expenses and excluding foreign exchange movements, depreciation, exploration and process inventory adjustments

Gold production for the March quarter was 10,892 ounces, a 21% decrease on the previous quarter. In addition, 4,193 ounces of silver was produced. All production was sold at spot prices, with an average sale price of US\$1,635 per gold ounce.

Gold ounces stacked for the March quarter were up slightly on the previous quarter to a new record under the Company's ownership.

The CMD Gold Mine Gross Operating Loss (as defined above) was negative US\$0.53 million for the quarter. This result was a 71% improvement on the previous quarter and was primarily driven by a 9% increase in stacked grades and an 18% reduction in the waste:ore ratio. The Gross Operating Loss has been reduced over the past 3 quarters and as seen in Figure 1, during the March quarter the Gross Operating Loss in January was turned into a Gross Operating Profit of US\$0.70 million by the month of March. Increasing monthly gold pours drove the Gross Operating Profit result in the month of March.

**Figure 1 – CMD Gold Mine Gross Operating Profit/Loss March 2013 Quarter**



C1 cash costs, which exclude waste costs expensed or amortised and royalties, increased to US\$1,239 per ounce of gold produced (an increase of 21% quarter on quarter).

The inventory adjustment of (US\$98) per ounce reflects the additional recoverable ounces added to the leach pad versus the ounces recovered during the period.

Table 2 below shows the cash costs for each quarter over the past year, and the impact of the inventory valuation adjustment (all numbers in US\$ per ounce).

**Table 2 – Cash Cost (US\$ per ounce) and inventory adjustments**

Item	Quarter ending 31 March 2013	Quarter ending 31 Dec 2012	Quarter ending 30 Sept 2012	Quarter ending 30 June 2012	Quarter ending 31 March 2012
Cash costs with inventory adjustment (\$/oz)	1,239	1,026	921	977	945
Cash costs without inventory adjustment (\$/oz)	1,337	1,062	1,166	1,144	835
Inventory adjustment effect (\$/oz)	(98)	(35)	(246)	(167)	110

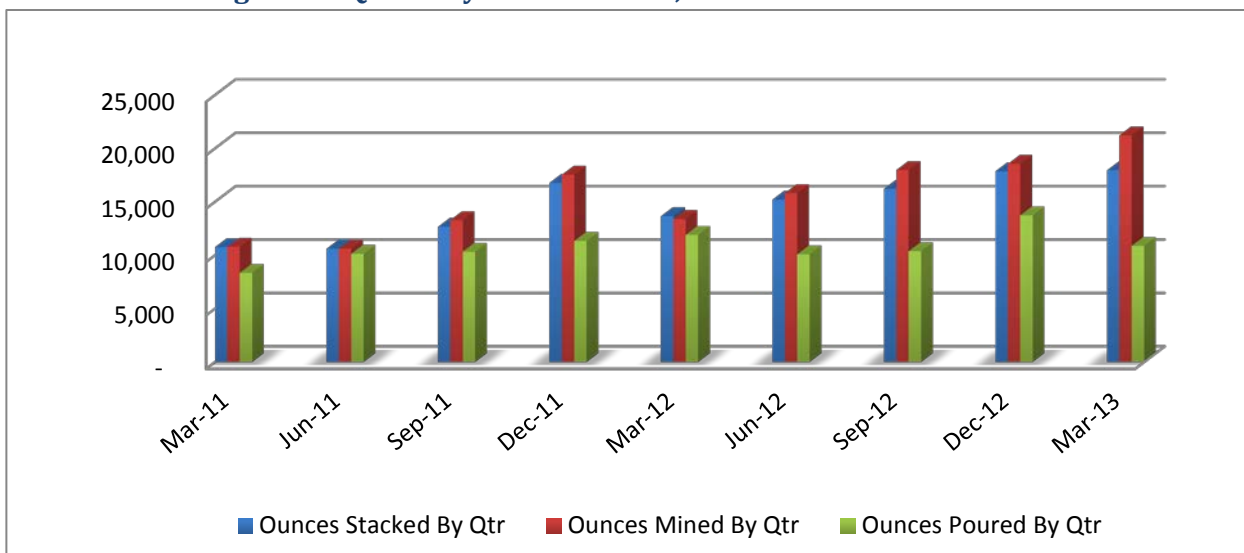
Total costs per tonne of ore stacked decreased 3% quarter on quarter to US\$18.35 per tonne, reflecting a significant (18%) decrease in the waste to ore ratio partially offset by increased process costs. The total costs per tonne (including waste stripping) are the lowest under the Company's ownership.

Figure 2 illustrates the ounces mined, stacked and produced by quarter since the Company bought the CMD Gold Mine at the end of 2010. As can be seen in Figure 2, gold mined has increased rapidly over the past 6 months and is surpassing stacked ounces as the owner mining fleet ramps up. A large ore stockpile has been built up in front of the crusher given the strong mine performance over the past quarter and subsequent to the end of the quarter mining has been slowed down in order to process some of the stockpile.

Gold pours were down quarter on quarter. The reasons for this are:

- One less gold pour compared to the previous quarter;
- The presence of elevated levels of copper in some Tres Perlas ores mined in November that has slowed recovery, thus increasing the lag period between stacking and recovery (discussed in the process section below) ; and
- Stacked ounces heavily weighted to the second half of the quarter, and given the leach cycle of 3 to 5 months the Company anticipates that these ounces should be produced in the June quarter.

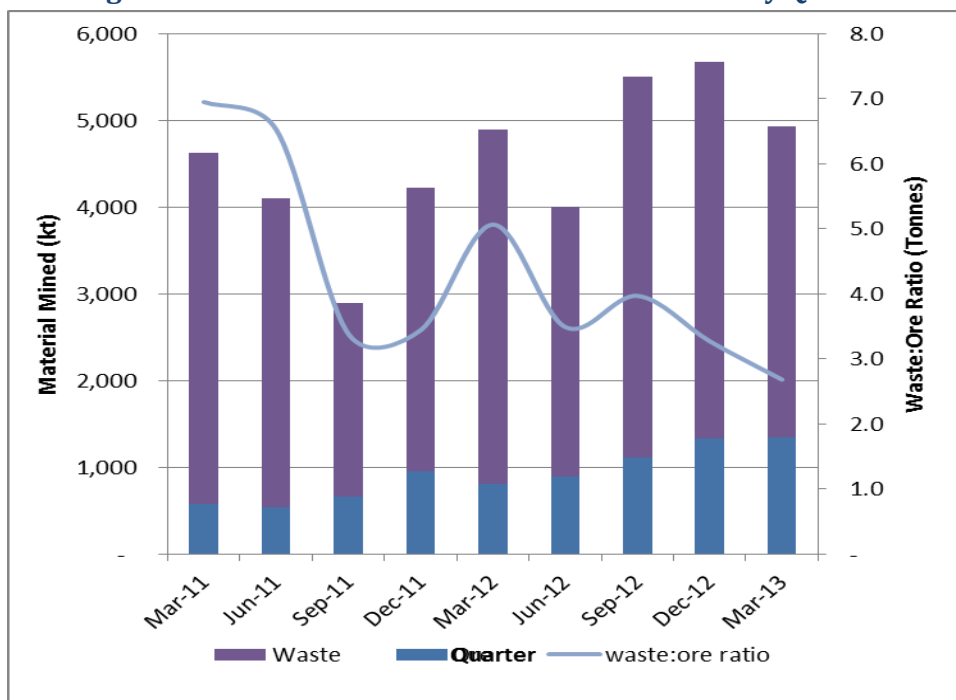
**Figure 2 – Quarterly Ounces Mined, Stacked and Gold Produced**



## Mining

Total ore mined for the quarter was 1.34 million tonnes for 21,220 contained Au ounces, with the waste to ore ratio for the quarter decreasing to 2.7 to 1 (from 3.3 to 1 in the previous quarter). Ore was principally sourced from the Tres Perlas, Churumata and Chisperos pits. Figure 3 shows the mining rate and waste to ore ratio by quarter since the Company acquired the project.

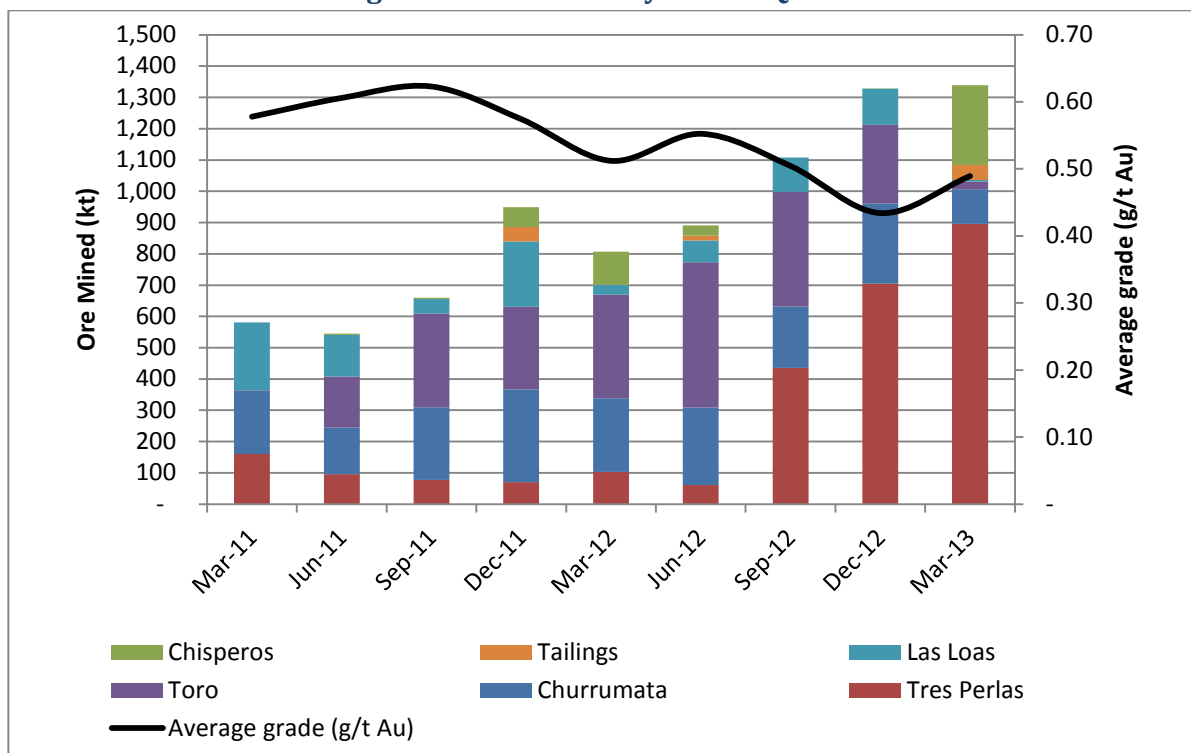
**Figure 3 – Material Mined and Waste to Ore Ratio by Quarter**



No run of mine (ROM) ore was mined during the quarter, as all ROM stockpiles are full. ROM ore mining was recommenced in the month of April in anticipation of completion of the new ROM dump leach pad.

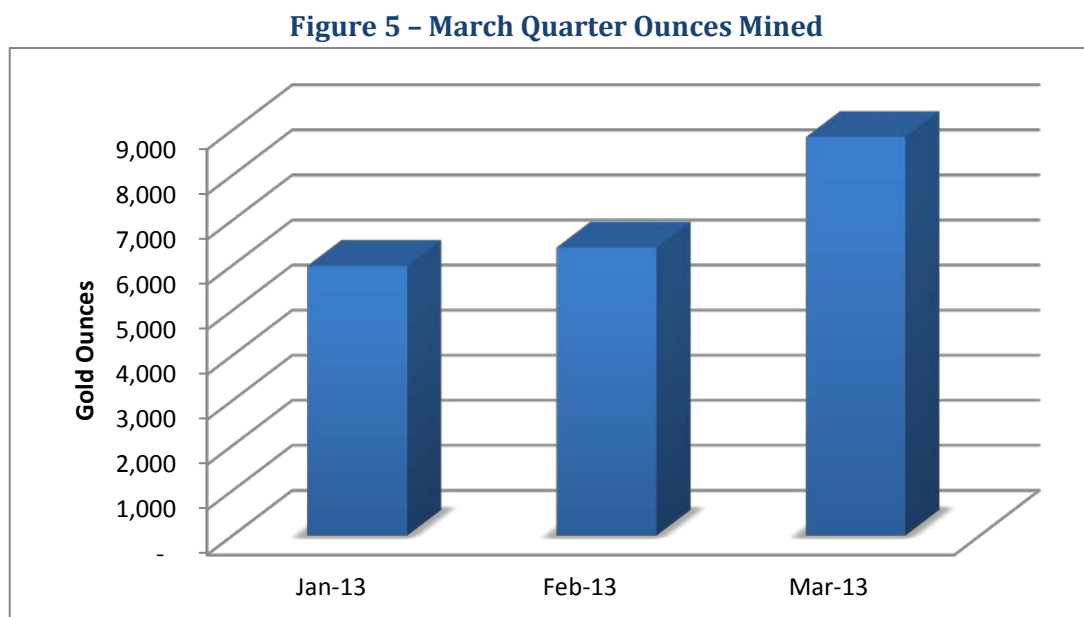
Mining was focussed on the Tres Perlas pit using the Company’s owner mining fleet, with total quarterly ore production from Tres Perlas increasing to 69% of the total ore mined, as illustrated in Figure 4 . The Life of Mine waste to ore ratio for the Tres Perlas pit is expected to be around 1:1.

**Figure 4 – Ore Mined by Pit and Quarter**



Ore was also sourced from the higher grade Chisperos pit where full access was established in mid January. Substantial ore mining from this pit was commenced in mid February and the impact of the higher grade material

was seen in the ounces stacked in the month of March as seen in Figure 5 below. During the month of March over 500,000 tonnes of ore was mined at an average grade of 0.55 g/t Au.



Average mined grades increased from 0.44 g/t Au in February to 0.55 g/t Au in March, an increase of 25% month on month and a direct result of the mining of the Chisperos pit.

The higher ore tonnage available from Tres Perlas and the high grades from Chisperos combined to make the month of March a record for ounces mined and stacked under the Company's ownership. The effect of the larger truck fleet and declining waste:ore ratios can be seen in the daily ore mining rates, with mining rates of 35,000 tpd and 40,000 tpd of ore being achieved during the quarter, the highest ore mining rates achieved in the 18 year history of the mine.

Mining during January was negatively impacted by the change out of the contractor in the Tres Perlas pit but by mid February the Company's own fleet of Komatsu equipment was operating at capacity and this led to a substantial portion of the ounces mined in the quarter being mined in the second half of the period.

Table 3 details the ore and waste movement in the March quarter by pit.

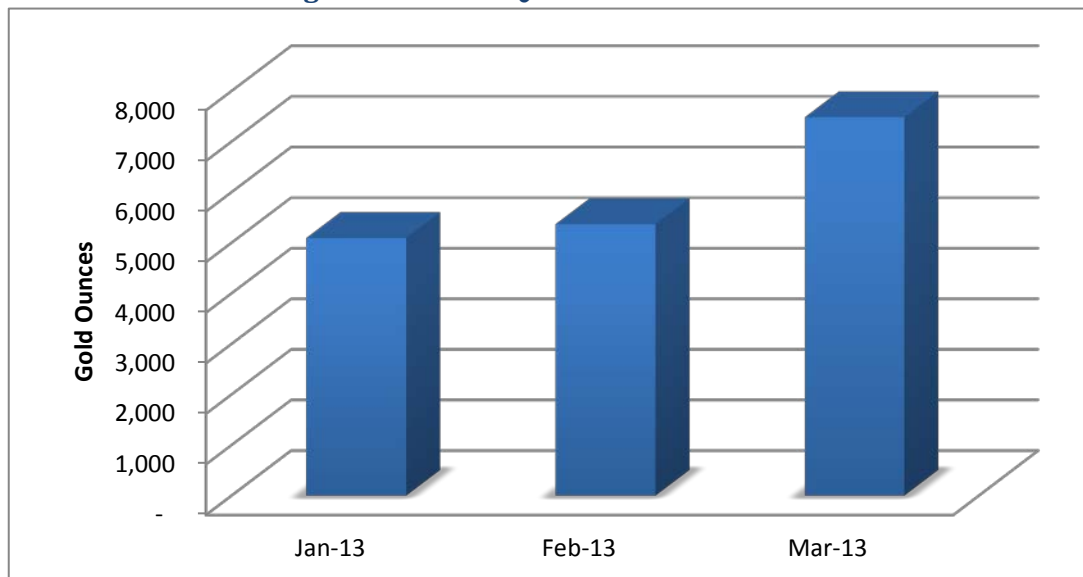
**Table 3 - Quarterly mine production by pit**

Item	Unit	Churumata	Tres Perlas	Chisperos	Toro	Las Loas	Tailings	Total
Ore Mined	Kt	110	896	254	25	6	48	1,339
Au Grade	g/t	0.53	0.40	0.78	0.50	0.34	0.58	0.49
Contained Au	Oz	1,888	11,472	6,359	392	62	893	21,066
Waste Mined	Kt	409	2,036	1,035	90	18	6	3,594
Total Mined	Kt	519	2,935	1,289	115	24	54	4,935
Strip Ratio	W:O	3.7	2.3	4.1	3.7	3.2	0.1	2.7

## Processing

Ore tonnage stacked was flat quarter on quarter. The ore tonnage available for stacking in January was reduced due to the Tres Perlas contractor change out. As seen in Figure 6, the stacking of gold accelerated in the second half of the March quarter.

Figure 6 – March Quarter Ounces Stacked



A series of minor maintenance issues throughout the quarter also negatively impacted plant availability. When running at full capacity, the plant has comfortably exceeded 18,000 tpd on numerous days throughout the quarter but downtime associated with maintenance in the tertiary crushers and stacking circuit reduced the average throughput. The Company continues to pursue a number of initiatives to increase plant availability, particularly in the crushing circuit, and is increasing the spares inventory on site to reduce downtime associated with the processing facilities.

For the month of March, 482,000 tonnes of ore was crushed in the primary and secondary crushers, but only 423,000 tonnes of ore was stacked on the pads, resulting in the build up of a large crushed ore stockpile within the plant.

Given that the mine fleet has been able to sustainably mine well in excess of the current plant capacity and the front end of the plant has excess capacity, the Company has been considering ways to increase throughput at the back end of the plant. The first initiative has been to increase the sizing of the tertiary crushed product from 9mm to 11mm. This is expected to give up to an additional 2,000 tpd of crushing capacity for no material negative impact on recovery or leach times. It should also result in lower maintenance costs and reduced downtime in the tertiary crushing circuit.

During the second half of the year the Company is considering leasing a mobile primary crusher to crush the low-grade ore and to further increase stacked tonnages. The goal of the Company is to have sufficient crushing capacity to be able to run the mining fleet at a higher production rate.

Gold pours were down quarter on quarter. The reasons for this are:

- One less gold pour compared to the previous quarter;

- The presence of elevated levels of copper in some Tres Perlas ore mined between September and December 2012 that has slowed recovery, thus increasing the lag period between stacking and recovery; and
- Stacked ounces heavily weighted to the second half of the quarter, and given the leach cycle of 3 to 5 months the Company anticipates that these ounces should be produced in the June quarter.

The elevated levels of copper in the ore mined from Tres Perlas between September and December 2012 started to be seen in the solution grades from the leach pads in mid December. Copper has the effect of consuming cyanide preferentially to gold and thus reduces the amount of cyanide available for leaching the gold on the pads. The CMD Gold Mine operates a copper cyanide precipitation circuit that removes copper from the solution flows, and this was activated in January and has been gradually reducing the copper in the circuit. Mining of the higher copper grade ore has been completed and mined copper grades have fallen as mining has progressed deeper at Tres Perlas.

The impact of this has been to delay the leaching of gold on the pads, with gold pours in January and to a lesser extent February being depressed due to the copper in solution. Gold pours in March and April have increased as the impact of the copper is reduced and the gold makes its way into the solution flow.

Cyanide consumption has increased quarter on quarter as the Company has increased cyanide addition rates in order to overcome the impact of the copper in solution. This has increased process costs but also resulted in higher gold recovery in the months of March and April.

The weighting of the ounces stacked to the back half of the quarter has also meant that ounces poured in the quarter have been reduced given the 3 to 5 month leach cycle of the CMD Gold Mine ores.

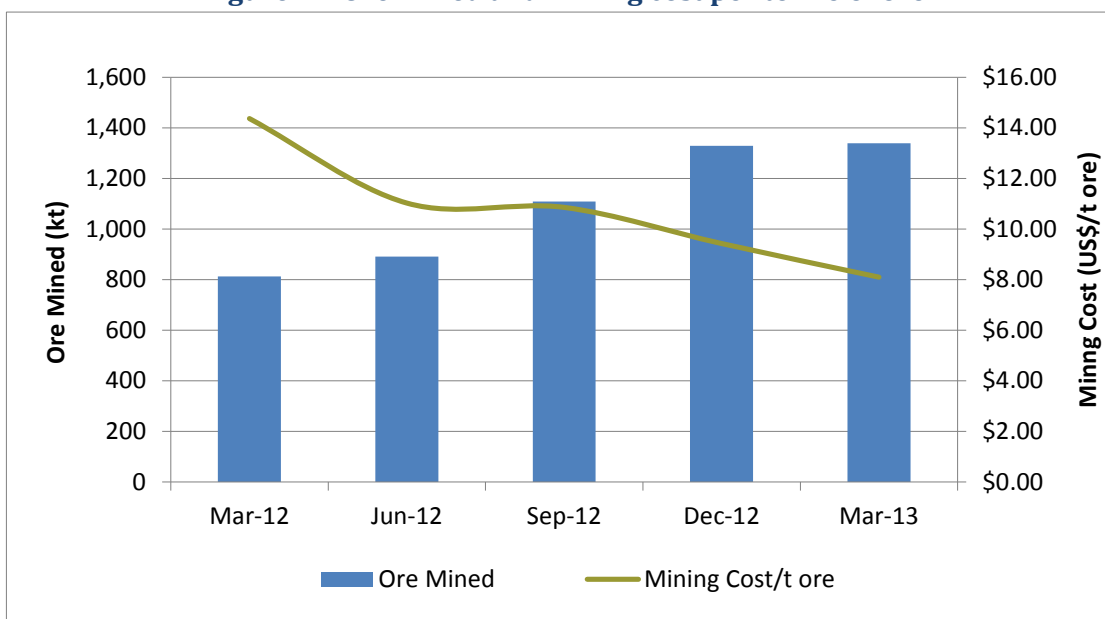
## **PROJECT COSTS**

### **Mining**

Unit mining costs decreased slightly to US\$2.20/t moved (from \$2.21/t the previous quarter) and the mining cost per tonne of ore was reduced 14% to \$8.10 as a result of the lower waste to ore ratio. Figure 7 illustrates the quarterly history of mining costs per ore tonne over the past year.



**Figure 7 - Ore mined and mining cost per tonne of ore**



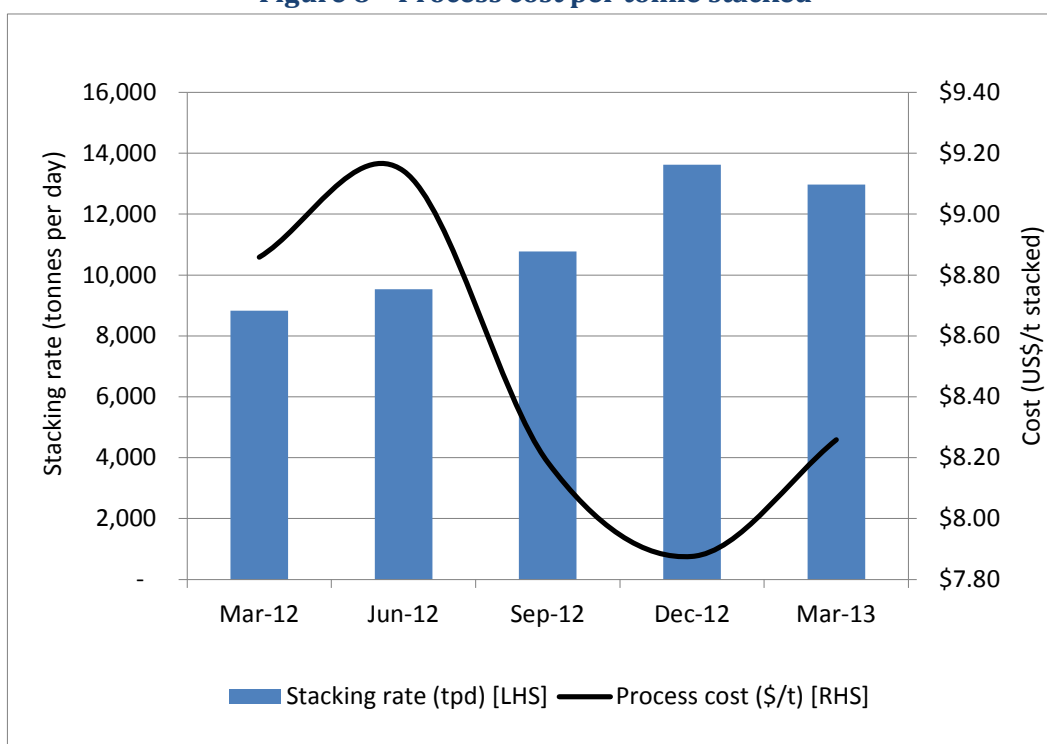
Average unit mining costs (a mix of contractor and owner fleet costs) were reduced over the quarter as the owner mining fleet ramped up to full production, with unit rates falling from US\$2.24/t moved in January to US\$2.11/t moved in March.

The owner mining fleet continues to deliver savings and the unit rate for the owner mining fleet in the month of March was reduced to US\$2.01/t moved.

## Ore Processing

Crushed ore tonnes stacked were flat quarter on quarter. Process costs per tonne of ore increased to \$8.51 per tonne stacked which was an 8% increase (Refer Figure 8). The higher cyanide consumption and increased maintenance costs were the main drivers for the higher process costs.

**Figure 8 - Process cost per tonne stacked**



## General and Administration (G&A)

G&A increased by 4% quarter on quarter to \$1.74 per tonne of ore.

## Exploration

No exploration was carried out during the quarter at the CMD Gold Mine.

## Cost Review

Given the recent fall in the gold price, the Company is reviewing its cost structure and reducing costs where possible. The mine plan has been revised to focus on the lowest cost ounces available for the remainder of CY 2013, with mining to focus on the high grade Chisperos pit and the low waste:ore ratio sections of the Tres Perlas pit. Mining costs in the March quarter accounted for approximately 44% of total production costs, down from 50% in the previous quarter.

The biggest impact on mining costs per ore tonne is the waste:ore ratio and mining of some higher waste:ore ratio ounces in the Toro and Churumata pits has been deferred while the focus is moved to either the high grade ore in Chisperos (currently averaging around 1g/t Au) and the low waste to ore ratio Tres Perlas pit.

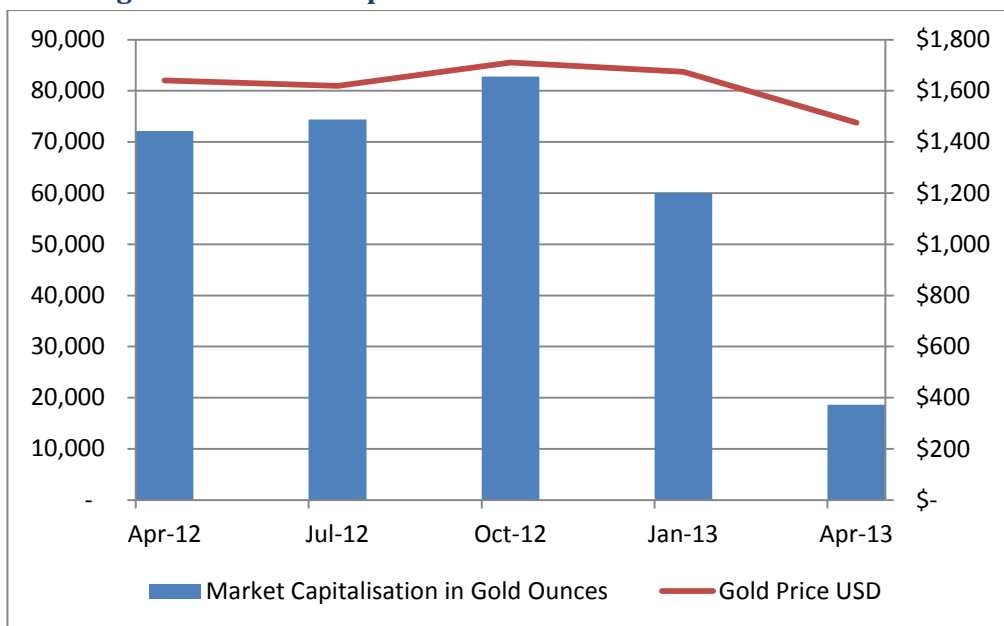
Process costs now account for 46% of total production costs, up from 41% in the previous quarter. The increased costs in the March quarter were disappointing given the reduction in costs seen in the previous quarter. Much of the increased costs are associated with cyanide consumption and ongoing maintenance in the plant aimed at increasing availability to take advantage of the excess ore being mined.

The Company utilises a dynamic pad system where leaching of the ore is carried out for approximately 4 months before the ore is moved to a final pad for another phase of leaching. Indications are that the top half of each pad contains very little gold and leaching of this is only consuming cyanide for little gold recovery, and trials will be run going forward looking at only leaching the bottom half of each pad after its been moved to the final pad. This should optimise cyanide consumption and focus production on the lowest cost ounces available.

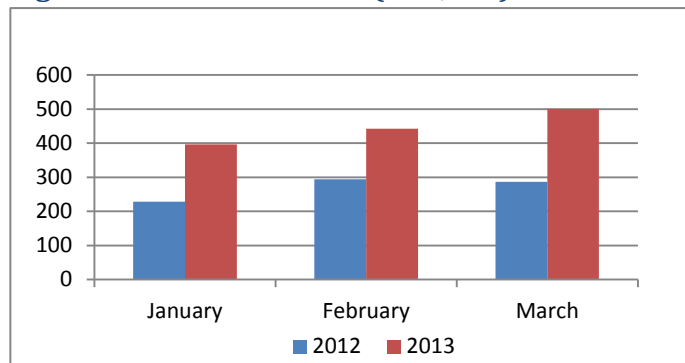
## CMD Gold Mine Operations Summary

Figures 10 to 16 below illustrate the performance of the CMD Gold Mine year on year. As can be seen from these Figures, the CMD Gold Mine performance has improved markedly over the past year. Unfortunately this has not been reflected in the share price, which has fallen from A\$1.50 to approximately A\$0.30 over the same period. The gold price has fallen from US\$1,641 per ounce to US\$1,475 per ounce over the same period and as Figure 9 illustrates, the market capitalisation of the Company expressed in gold ounces has fallen from 72,000 ounces a year ago to 18,600 ounces today.

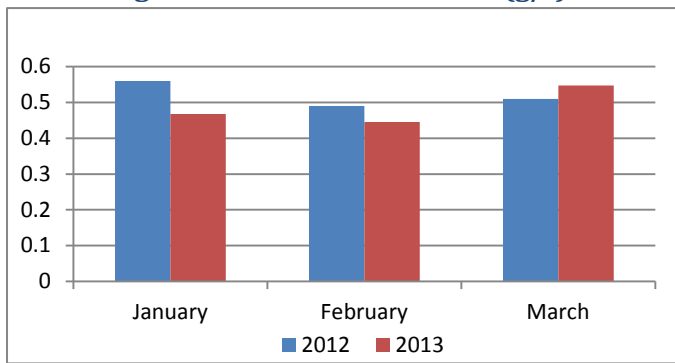
**Figure 9 - Market Capitalisation in Gold Ounces and Gold Price**



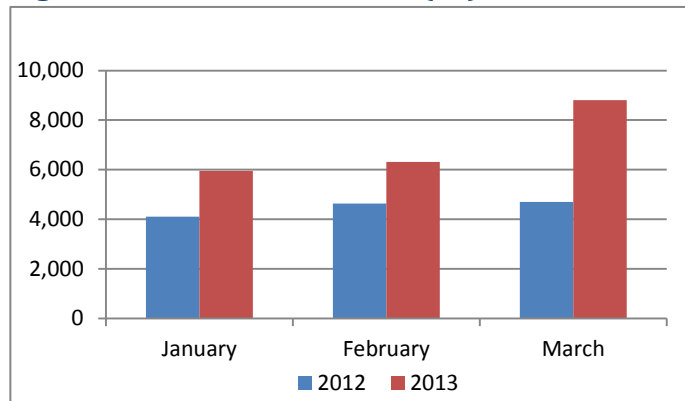
**Figure 10 - YoY Ore Mined (t x 1,000)**



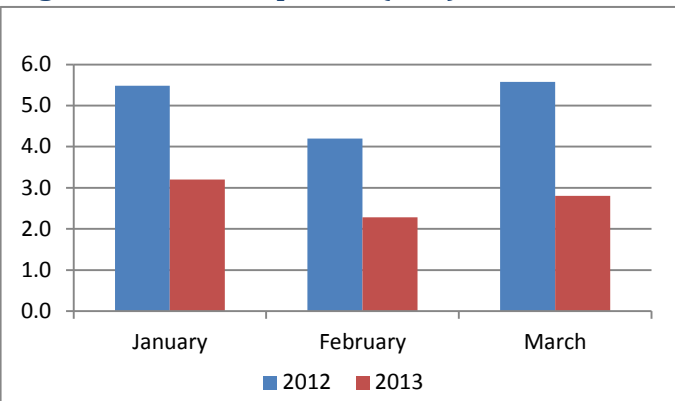
**Figure 11 - YoY Grade Mined (g/t)**



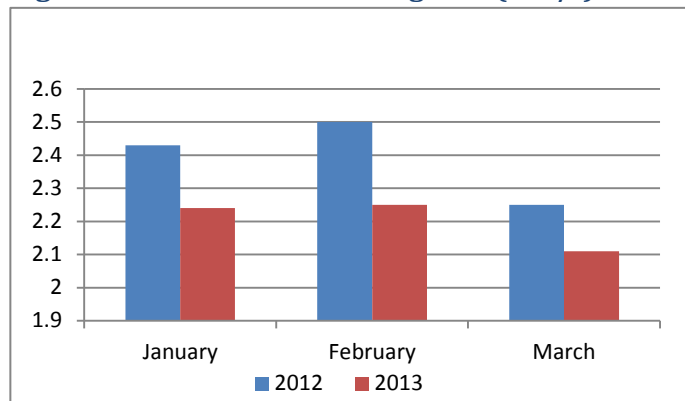
**Figure 12 - YoY Ounces Mined (Oz)**



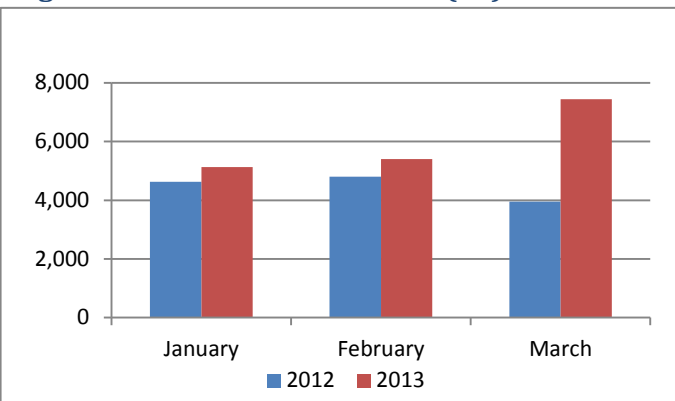
**Figure 13 - YoY Strip Ratio (W:O)**



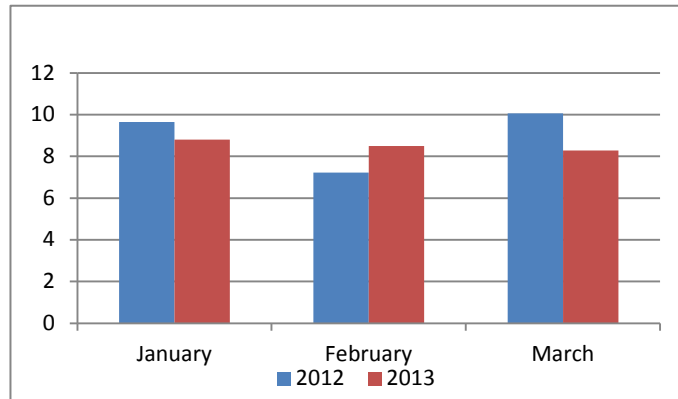
**Figure 14 - YoY Overall Mining Cost (US\$/t)**



**Figure 15 - YoY Ounces Stacked (Oz)**



**Figure 16 - YoY Overall Process Cost (US\$/t stacked)**



## **BUSHRANGER COPPER PROJECT (100%, Newmont earning 51%)**

No material work completed by Newmont during the quarter.

### **CORPORATE**

#### **Debt Facility**

During the quarter the Company entered into a C\$10 million secured debt facility (Facility) with Sprott Resource Lending Partnership (“Sprott”). The Facility has a 12-month term and is drawable in two x C\$5 million Tranches. The term of the loan can be extended for a further 12 months under certain circumstances and the payment of an extension fee.

Under the terms of the Facility, Tranche 1 was required to be drawn and Tranche 2 is drawable within a 6 month period after the closing of the Facility. The Facility bears interest at 11% per annum, payable monthly. A fee is payable to Sprott in an amount equal to 4% of each draw under the Facility, being \$200,000 for each C\$5 million draw, payable by the issuance of ordinary shares of the Company to be priced at a 10% discount to the 5 day Volume Weighted Average Price (VWAP) of the Company’s shares on the TSX prior to the draw down, subject to the receipt of applicable exchange approvals.

Tranche 1 of the Facility was drawn on 19 February and 221,680 ordinary shares issued in satisfaction of the fee.

### **COMMENTS**

Mick McMullen, Executive Chairman, commented on the quarterly report “The Company’s operating team has shown continuous quarter over quarter improvement in most metrics since the inception of Lachlan Star’s involvement with the project; something that sets us apart from many of our competitors in this environment of increasing costs industry-wide.

The turn around in the gross operating profit result during the March quarter has been especially encouraging with the result in the month of March demonstrating the positive impact the higher grades from Chisperos and low waste to ore ratio from Tres Perlas are having. We will continue to move this operation to higher production levels in order to further drive our costs down, and we will be aggressively cutting costs in light of the new gold price environment.

The valuation of the Company has fallen to the equivalent of 18,600 ounces of gold compared to 72,000 ounces of gold a year ago. The Company has 2.06 million ounces of Indicated mineral resources and a further 1.35 million ounces of Inferred mineral resources and an operating mine in one of the best mining jurisdictions (Chile).

Although our dramatic improvements in operating metrics have not translated into improved share prices to date, much of this downward trend is part of an industry-wide pull-back in share prices. The board and management

own approximately 7.5 million shares, so that our goals are in alignment with those of the rest of our shareholders.”

For and on behalf of the Board

Mick McMullen  
Chairman

For further information please visit [www.lachlanstar.com.au](http://www.lachlanstar.com.au) or contact

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**Table 4 – CMD Gold Mine Indicated and Inferred Mineral Resource<sup>1</sup>**

<b>CMD Gold Mine Mineral Resources (September 2012)</b>						
<b>Deposit</b>	<b>Indicated</b>			<b>Inferred</b>		
	<b>Tonnes (Mt)</b>	<b>Grade (Au)</b>	<b>Ounces (kozs)</b>	<b>Tonnes (Mt)</b>	<b>Grade (Au)</b>	<b>Ounces (kozs)</b>
Las Loas (April 2011)	2.9	0.8	73	1.5	0.8	38
Toro (Feb 2012)	17.5	0.6	348	11.6	0.4	135
Tres Perlas (Sept 2012)	130.1	0.4	1,602	99.4	0.4	1,138
Chisperos (April 2011)	1.0	1.1	36	1.4	1.0	43
<b>Total</b>	<b>151.5</b>	<b>0.4</b>	<b>2,058</b>	<b>113.9</b>	<b>0.4</b>	<b>1,354</b>

1. Reported above 0.15 g/t Au for all except Las Loas and Chisperos deposits which are reported above 0.30 g/t Au
2. Table contains rounding and may not sum precisely

#### **Competent Persons Statement**

The information in the news release that relates to the Mineral Resources of Tres Perlas, Chisperos, Las Loas, El Sauce, Churrumata and Toro/Socorro is based on information compiled by David Slater, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy. Mr. Slater is employed full time by Coffey Mining Pty Ltd. The information in the news release that relates to exploration results is based on information approved by Declan Franzmann, who is a Chartered Professional Fellow of The Australasian Institute of Mining and Metallurgy. Mr. Franzmann is employed by Citraen Pty Ltd and is an officer of the Company. Each of Mr. Slater and Mr. Franzmann has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" and to qualify as a "Qualified Person" under NI 43-101. Each of Mr. Slater and Mr. Franzmann consents to the inclusion in the news release of the matters based on his information in the form and context in which it appears.

#### **Caution Regarding Forward Looking Information:**

This report contains forward-looking information, which is based on assumptions and judgments of management regarding future events and results. Such forward-looking information includes but is not limited to information with respect to future exploration and drilling, procurement of financing and procurement of necessary regulatory approvals.

Forward-looking information involves known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any anticipated future results, performance or achievements expressed or implied by such forward-looking information. Such factors include, among others, the actual market price of gold, the actual results of current exploration, the actual results of future exploration, changes in project parameters as plans continue to be evaluated, as well as those factors disclosed in the Company's publicly filed documents. The Company believes that the assumptions and expectations reflected in the forward-looking information are reasonable. Assumptions have been made regarding, among other things, the Company's ability to carry on its exploration and development activities, the timely receipt of required approvals, the price of gold, the ability of the Company to operate in a safe, efficient and effective manner and the ability of the Company to obtain financing as and when required and on reasonable terms. Readers should not place undue reliance on forward-looking information. Lachlan Star does not undertake to update any forward-looking information, except in accordance with applicable securities laws.